

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of)

PUBLIC UTILITIES COMMISSION)

Instituting a Proceeding to Investigate)
Distributed Generation in Hawaii.)

Docket No. 03-0371

KAUAI ISLAND UTILITY COOPERATIVE'S RESPONSES TO THE
COUNTY OF KAUAI'S INFORMATION REQUESTS

AND

CERTIFICATE OF SERVICE

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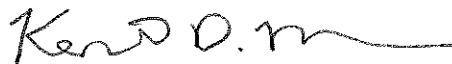
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KAUAI ISLAND UTILITY COOPERATIVE'S RESPONSES TO THE
COUNTY OF KAUAI'S INFORMATION REQUESTS

COMES NOW, KAUAI ISLAND UTILITY COOPERATIVE, by and through its attorneys,
Oshima Chun Fong & Chung, hereby submits its Responses to the County of Kauai's
Information Requests.

DATED: Honolulu, Hawai'i, June 16, 2004.



ALAN M. OSHIMA
KENT D. MORIHARA

Attorneys for KAUAI ISLAND UTILITY
COOPERATIVE

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
COUNTY OF KAUAI'S INFORMATION REQUESTS
DOCKET NO. 03-0371**

COK-SOP-IR-1

Reference: Issue 1

On pages 6 and 8 of its SOP, KIUC states that it does not believe that a general determination of what forms of distribution generation are feasible and viable for Hawai'i can be made at the current time. The following IRs address KIUC's apparent efforts to explore the feasibility and viability of distributed generation.

- a. The minutes of KIUC's board meeting of March 31, 2004 refers to a renewable energy study (agenda item #6, president's report).

- i. Please provide a scope of work for the study.

Response:

See Attachment COK-SOP-IR-1.a.i.

- ii. State if renewable energy distributed generation will or will not be part of the study and the reasons for inclusion or exclusion.

Response:

The intent of the renewable energy study is to evaluate Kauai's renewable resources and assist KIUC in determining which resource or resources would be the most viable to produce energy and under what circumstances and environment. This will likely involve an evaluation of various circumstances that can be considered as involving distributed generation.

- b. The minutes for the same board meeting indicate that the board unanimously approved a motion to fund and proceed with a feasibility study on distributed generation. Please provide a scope of work or a detailed description of what this feasibility study will entail.

Response:

This feasibility study is no longer being pursued at the current time. At the time the Board approved the commencement of the feasibility study on March 31, 2004, KIUC was not yet aware of the course of these generic docket proceedings (i.e., whether these proceedings would require immediate action by KIUC or whether KIUC would have an opportunity to undertake a separate study prior to any significant action being required in these proceedings). As a result, the Board approved the commencement of the study to allow KIUC to hire a consultant to look into distributed generation with the hope of possibly utilizing the results of the study to assist KIUC during the course of these proceedings.

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COK-SOP-IR-1 (cont.)

However, shortly following the approval of the study, the parties and participants in this docket agreed upon a schedule for these proceedings that provided immediate action by KIUC and the other parties and participants through filings of preliminary statements of position by May 7, 2004 and subsequent discovery. As a result, KIUC realized that it was no longer feasible to continue with the feasibility study, and was instead required to focus all of its efforts with respect to distributed generation on the proceedings in this docket. As such, instead of retaining a consultant to prepare the feasibility study, KIUC has instead retained a consultant to assist in these proceedings.

Sponsor: Mike Yamane

ATTACHMENT
COK-SOP-IR-1.a.i.

ATTACHMENT A

SCOPE OF WORK FOR RENEWABLE ENERGY TECHNOLOGY ASSESSMENT

OF

KAUA'I ISLAND UTILITY COOPERATIVE

1. INTRODUCTION

On October 30, 2002 the Public Utilities Commission (Commission) rendered Decision and Order No. 19755 for Docket No. 02-0060, Application of Citizens Communications Company, Kaua'i Electric Division and Kaua'i Island Utility Co-op (KIUC) for approval of the sale of certain assets of Citizens Communications Company, Kaua'i Electric Division and related matters. As stated in the Decision and Order, the Commission requires that KIUC "...prepare and submit for commission and Consumer Advocate review and consideration its proposed revisions to Integrated Resource Plan and Demand Side Management programs..."

KIUC is governed by a nine-member board of directors (Board). The Board is encouraging effort towards the use of renewable energy resources to meet new needs for capacity and to replace existing generating units over time.

1.1 IRP CONSIDERATIONS AND GENERAL GOAL OF THE TECHNOLOGY ASSESSMENT

KIUC is in the process of developing a revision of the Commission's current Framework for Integrated Resource Planning. The purpose of this revision will be to modify the framework as appropriate to reflect the business nature of an electric cooperative in Hawaii. As expressed within KIUC's 2004 Strategic Initiatives, KIUC is committed to evaluate and promote feasible renewable energy technologies. With this in mind, this Renewable Energy Technology Assessment is KIUC's first full scale effort to evaluate the technical, economic, social and environmental feasibility of renewable energy on Kauai. It is highly likely that certain information provided by the assessment will be direct input to the IRP process and the utility planning model (UPLAN). In order to be considered appropriate for an integrated resource plan, the recommended renewable supply-side options should have a reasonable chance of successful implementation should they be chosen by the model.

The information provided will also assist KIUC in an assessment of its ability to comply with the Hawaii State Legislature's Renewable Portfolio Standards (RPS).

2. OVERVIEW OF PAST RENEWABLE PROJECTS ON KAUA'I

The past efforts to select, design, permit, and construct renewable energy generators on Kaua'i has been largely unsuccessful. Yet, it is KIUC's hope that the barriers that have prevented successful implementation in the past are surmountable. These past barriers have included siting issues, environmental issues, and state and county permitting issues. The unsuccessful projects have included several hydroelectric plants, a wind farm, and plasma-arc municipal waste plant. Some investigation into past barriers should be done to determine if these barriers still exist and if they do, determine if there is a reasonable chance that they could be overcome.

3. SCOPE OF WORK

Tasks:

- A. The Contractor shall identify the sources of all data.
- B. Using existing data resources, the Contractor shall develop baseline data on existing renewable energy technologies installed on Kaua'i, and their associated contribution to energy generation (capacity and energy) for end-use applications.
- C. The Contractor's screening analyses shall include, but not be limited to, the following renewable energy technologies: biomass-to-electricity, hydrogen fuel cells, hydropower, landfill gas-to-electricity, municipal solid waste-to-electricity, ocean energy, PV, solar thermal electric, and wind. The Contractor shall assess the contributing resource base for each of the above technologies.
- D. The Contractor shall screen each of the above technologies according to the following criteria:
 - a. Potential for increased contribution to energy supply on Kaua'i within the next 3, 5, 10, and 20 years; and,
 - b. Potential for increased installed capacity on Kaua'i within the next 3, 5, 10, and 20 years.The Contractor shall submit a description of the procedure and criteria weighting used for the screening to KIUC for approval.
- E. The Contractor shall use the screening test to determine which renewable energy technologies will be further analyzed in Tasks F through I. The Contractor shall provide a list of the renewable energy technologies that pass the screening test to KIUC for approval. The Contractor shall also provide to KIUC a list of technologies that failed the screening test and reasons why such technologies had failed.
- F. The Contractor shall prepare renewable energy technology profiles that include, but are not limited to:
 - a. Assessment of contributing resource
 - b. Technology description

- c. Power and energy production (including efficiencies, capacity factor)
- d. Cost of energy (including equipment, installation, operating and maintenance)
- e. Current incentive offerings (including outside of Hawaii)
- f. Life-cycle economics (with and without incentives)
- g. Advantages and disadvantages of technology
- h. Non-energy benefits of technology
- i. Technical, economic, and market potential (next 3, 5, 10, and 20 years)
- j. Market drivers
- k. Barriers (regulatory, market, information, infrastructure, technology, financial, economic)
- l. Resources and opportunities to address barriers
- m. Prospects for interventions and incentives
- G. The Contractor shall prepare renewable energy technology supply curves or unit generation characteristic data in a format usable by KIUC's utility planning software (UPLAN).
- H. The Contractor shall prepare an overall score for each of the renewable energy technologies based on technical and market potential, cost of saved energy and/or capacity, market barriers, need for intervention, and likelihood of successful adoption. The Contractor shall submit a description of the scoring procedure and criteria weighting to KIUC for approval.
- I. The Contractor shall determine the impact of future renewable energy technology developments and market trends, increased demand, market interventions and incentive programs, increased electrification, and fuel switching on the above finding for the technologies analyzed.
- J. The Contractor shall prepare a draft Final Report and submit for KIUC review. The Contractor shall incorporate final changes and submit Final Report.

Meetings and Briefings:

The Contractor is required to work closely with KIUC staff, including at least one meeting on Kaua'i with staff at the beginning of the project to review final study plans, approaches, schedule, staffing, etc. and other meetings, as deemed necessary by KIUC, to discuss comments on the draft Final Report.

Schedule and Deliverables:

The expected contract duration is 3 to 5 months and will depend upon the number of renewable technologies chosen for assessment. As an attachment to the contract, the Contractor will provide a deliverable time schedule that includes, but is not limited to:

- Submittal of preliminary estimates of the technical, economic, and market potential for renewable energy technologies holding the greatest promise – other technologies can follow later.
- Submittal of a draft Final Report for review and comments by KIUC.
- Submittal of the Final Report.

In addition to the Final Report, the Contractor shall be required to submit monthly progress reports, in a letter format, to KIUC's Project Manager. The reports shall: summarize progress on contracted work efforts and provide interim results with respect to project objectives; identify problems encountered and how they will be resolved; indicate any significant deviation for the approved schedule; and summarize all costs incurred in relation to the budget and work progress.

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-2

Reference: Issue 1

On page 8 of its SOP, KIUC states that the feasibility and viability of specific forms of distributed generation "...can only be made on a case-by-case basis..." and that "... the members of KIUC will have a great deal of input on how distributed generation opportunities should be pursued for its electrical system."

Will each member be provided an opportunity for input? If so, explain the process to be used to solicit input. If not, please explain how KIUC intends to solicit member input to determine the support level for distributed generation and the direction and projects to be pursued.

Response:

As a cooperative, KIUC is a democratic organization controlled by its members, whose members have the opportunity and discretion to actively participate in setting policies and making decisions. The elected members of the Board of Directors, who approve policies for KIUC, are accountable to the membership. Members also exercise control through voicing their opinions and voting on issues at annual and other membership meetings.

Sponsor:

Mike Yamane
N. Richard Friedman

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-3

Reference: Issue 1

On page 1 of the Preliminary Statement of Position filed by Hawaiian Electrical Company, Inc, Hawai'i Electrical Light Company, Inc. and Maui Electrical Company, Limited (HEI Companies" SOP), the companies propose seven factors to determine whether a form of distributed generation is feasible and viable for Hawai'i.

Does KIUC agree that the seven factors are valid criteria for determining the feasibility and viability of distributed generation for Hawai'i, whether on a case-by-case or generic basis? If not, please specify the areas of disagreement and the reasons for disagreement.

Response:

KIUC agrees that the "seven factors" identified in HECO's SOP are valid criteria for determining the feasibility and viability of distributed generation for Hawai'i. In addition to the above, however, KIUC believes that other factors may also need to be considered, such as the distributed generation's footprint, noise generation, power quality performance, reliability and availability, ease of interconnection, dispatchability, etc.

It should also be noted that a determination of what may be feasible and viable for Kauai may be different than for the other islands. This difference is due to the cooperative form of membership in Kauai. Unlike investor-owned utilities (IOUs), a cooperative is a non-profit entity, which operates on essentially a cost minimum philosophy rather than a profit maximum philosophy and with no shareholders but instead member-consumers. As such, while an IOU must be concerned with obtaining cost recovery from ratepayers and obtaining a profit for its shareholders, a cooperative does not have to face the same issues because its ratepayers and members/shareholders are generally one and the same. As such, a cooperative has a direct obligation to its members to provide electricity at the lowest cost possible while also considering its members' interests.

Sponsor:

Mike Yamane
N. Richard Friedman

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-4

Reference: Issue 2

On page 8 of the HEI Companies' SOP, the companies describe their intentions regarding customer-sited emergency generation, CHP systems to customers, industrial customer-sited cogeneration facilities, and customer-sited generators for power purposes.

Please specify the differences between KIUC's intentions on these situations and the reasons KIUC's intentions differ from the positions of the HEI companies as described on page 8 of the HEI Companies' SOP.

Response:

KIUC has no current plans to offer emergency generation or "off-grid" generation to its members. As indicated in KIUC's SOP discussion under Issue 10, KIUC has begun to explore the feasibility of providing on-site generation that is owned by KIUC, where the customer would receive the benefit of any available waste heat. Thus, KIUC would consider offering DG/CHP systems in circumstances where cooperative ownership of such systems results in an overall cost savings to its members. KIUC has not yet taken a position on its role in an industrial cogeneration project, although it tends to agree that such a project most likely falls outside the scope of these proceedings.

Sponsor:

Mike Yamane
N. Richard Friedman

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-5

Reference: Issue 2

On pages 9-12 of the HEI Companies' SOP, the companies describe their position with regard to utility participation in the provision of CHP.

Is the Position of the HEI companies, as descry bed on pages 9-12 of their SOP identical to KIUC's position. If no, please specify how and why KIUC's position differs from the position of the HEI companies on page 8 of the HEI Companies' SOP.

Response:

KIUC finds this information request as well as various others by the County of Kauai too vague and far-reaching for KIUC to provide an outright statement that its position is identical to certain pages of the HEI Companies' SOP. While KIUC generally agrees with the statements made in the HEI Companies' SOP on pages 9-12, as indicated in its preliminary statement of position, KIUC notes that it has not yet made a determination as to what its exact position is with regard to its participation in the provision of CHP and distributed generation as a whole. KIUC also notes that, in the end, it is likely that KIUC's position on this and other matters relating to distributed generation will not be completely identical to the HEI Companies as a result of their respective different ownership structures. As mentioned throughout KIUC's preliminary statement of position and discovery responses, KIUC is not an investor-owned utility and is instead owned by its members. As a result, regardless of the economies and cost vs. benefit analysis that may be undertaken by an investor-owned utility as well as KIUC as to whether KIUC should or should not own a CHP system or participate in distribution generation, KIUC's overall objective of minimizing costs to its members will influence whether and to what extent KIUC should participate in such matters.

Sponsor:

Mike Yamane

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-6

Reference: Issue 3

On pages 14-15 of the HEI Companies' SOP, the companies state that their view of the appropriate role for the Commission, including review of utility applications, contracts filed under an approved CHP program, review the consistency of the form of Rule 4 contracts for consistency in form and pricing with the CHP program, review and approve tariffs, including those setting interconnection standards, and review whether the retail sale of electricity by third-party owners falls within the purview of public utility statutes.

Does KIUC agree with the HIE companies' position of the Commission's role, as described on pages 14-15 of the HEI Companies SOP? If no, please identify the area(s) of disagreement and the reasons for the disagreement.

Response:

See the response to COK-SOP-IR-5.

Generally, KIUC agrees with the HEI Companies' position. However, KIUC is in the process of revising its existing IRP framework for changes that may be appropriate for a member-owned electric utility. As a start-up cooperative, while KIUC doesn't have a similar "profit" incentive as in an investor-owned utility, it must ensure that debt service is reasonably covered and that equity grows during the critical early period of its existence, while also balancing its members' priorities and its regulatory requirements.

Sponsor:

Mike Yamane

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-7

Reference: Issue 3

On pages 13-15 of the HEI Companies' SOP, the companies describe their intentions regarding seven categories of distributed generation applications.

Are the positions and intentions of the HEI Companies, as described on pages 13-15 of their SOP identical to KIUC's positions and intentions on the same issues? If no, please specify how and why KIUC's positions and intentions differ from the positions and intentions of the HEI companies on pages 13-15 of the HEI Companies' SOP.

Response:

See the response to COK-SOP-IR-4 and COK-SOP-IR-5. KIUC would consider offering interconnected DG systems in circumstances where cooperative ownership of such systems results in an overall cost savings to its members and is consistent with its members' interests. KIUC will be investigating different usages of distributed generation as this Docket proceeds and afterwards.

Sponsor:

Mike Yamane
N. Richard Friedman

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-8

Reference: Issues 4-8

On pages 16-27 of the HEI Companies' SOP the companies describe their positions on issues 4,5,6,7, and 8.

Are the positions of the HEI Companies, as described on pages 16-27 of their SOP identical to KIUC's positions on issues 4-8? If no, please specify how and why KIUC's positions differ from the positions of the HEI Companies on issues 4,5,6,7 and 8 as describe on pages 16-27 of the HEI Companies' SOP.

Response:

KIUC generally agrees in concepts with the HEI Companies' SOP on issues 4-8. However, see KIUC's response to COK-SOP-IR-5.

Sponsor:

Mike Yamane

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-9

Reference: Issue 9

The HEI Companies' SOP describes proposed changes to the companies' proposed modifications to their existing rules to establish interconnection standards and to require an interconnection agreement for distributed generating facilities operating in parallel with the companies' electric systems.

Does KIUC believe that the rule changes implemented or proposed by the HEI companies (as described and identified in pages 28-29 of the HEI Companies' SOP) are appropriate for adoption by KIUC. If not, state the reasons the rule changes would not be appropriate for KIUC.

Response:

Based on KIUC's reading of pages 28-29 of HEI's SOP, KIUC believes that the proposed change that HEI has referenced is a modification to their existing Rule 14 to add a Paragraph (H) that would contain: 1) DG (Distributed Generation) Interconnection Technical Requirements Standards, 2) An Interconnection Agreement Standard, 3) An Interconnection Process Overview, and (4) a requirement that any DG desiring to interconnect and operate in parallel with HEI's electrical system would be subject to Rule 14(H).

KIUC has not yet determined if/how HEI's Rule 14 is appropriate for KIUC, and as such, KIUC cannot comment at this time on whether or how modifications to HEI's Rule 14 would be appropriate for KIUC.

However, in general, KIUC agrees that in the event a DG facility is interconnected and operated in parallel with an electric utility's electrical system, that DG facility should be required to adhere to the Interconnection Technical Requirements Standards and an Interconnection Agreement that the utility believes is appropriate for that DG facility. KIUC also will review the applicability of the NRECA DG Toolkit and IEEE Standard 1547 to any interconnection rules, and believes that both of these documents would be incorporated in any DG interconnection requirements.

Sponsor:

Joe M^cCawley
N. Richard Friedman

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
COUNTY OF KAUAI'S INFORMATION REQUESTS
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COK-SOP-IR-10

Reference: Issue 10

On pages 30-31 of the HEI Companies' SOP, the companies state that "HECO and HELCO have obtained approval for certain customer retention rate provisions in Rule 4 of their respective tariffs in order to address the issue of uneconomic bypass."

Does KIUC believe that the changes made by HECO and HELCO to their respective Rule 4(s) are necessary for the KIUC to address the issue of uneconomic bypass. If no, please state the reasons for KIUC's conclusion.

Response:

KIUC has not had the opportunity to obtain a sufficient level of understanding of the above referenced changes to HECO and HELCO Rule 4 Tariff and their background to provide any position as to if or how these changes should or could be used by KIUC to address the issue of uneconomic bypass in the context of an electric cooperative owned by its members. KIUC does believe, however, that the view and role of economic electrical supply for an electric cooperative may differ from that of an investor owned utility, and as such, the approach toward towards the uneconomic bypass issue may also differ.

Sponsor:

Joe McCawley

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-11 Reference: Issue 10

Page 18 of KIUC's SOP states that "...KIUC has begun to explore the feasibility of providing on-site generation that is owed by KIUC with service provided in accordance with KIUC's existing tariff."

- a. What is KIUC's position regarding non-KIUC owned and distributed generation?

Response:

As stated in KIUC's SOP to Issue 2, KIUC does not intend to place any limitations on who should be allowed to own and operate distributed generation facilities as long as the facilities can be operated and maintained in accordance with certain industry standards and as long as interconnection issues are satisfied and no material concerns remain as a result of an analysis taking into consideration, without limitation, the considerations set forth in Article III, Section 9 of KIUC's Preliminary SOP.

- b. Does "in accordance with KIUC's existing tariff" mean that KIUC's current standby charges (standby rider rates) for customers who will remain unchanged? If yes, please explain why changes are not required. If no, please explain the reasons for making changes and describe the methodology for calculating the appropriate standby charge(s).

Response:

As stated in KIUC's SOP, under the scenario of a KIUC-owned, on-site distributed generation project, a customer may be able to avoid standby charges in exchange for the free rental of the DG facility. However, as to the applicability of the standby charge and whether its current standby charges should be increased, KIUC is still in the process of making a determination as to what changes should be made in order to benefit the individual DG owner while still retaining material benefits for KIUC's members.

Sponsor: Joe M^cCawley

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-12 Reference: Issue 11

The Division of Consumer Advocacy (CA) maintains that the Integrated Resource Plan (IRP) process must address the impact of DG projects. (CA Preliminary Statement of Position at 23). The HEI Companies SOP states that "[n]o changes to the IRP framework are required for consideration of DG." (HEI Companies' SOP at 33).

- a. Does KIUC agree with the Consumer Advocate's position or the HEI companies' position? Please explain the reason(s) for the choice. If KIUC has a different position, please state the position and the reason(s) for the position.

Response:

As per KIUC's SOP for Issue 11, KIUC is currently developing a "Coop" IRP framework to present to the Consumer Advocate and the PUC. At a minimum, KIUC intends that this revised framework will consider the impacts distributed generation will have on its system and members. This does not mean, however, that the HEI Companies require any changes to its IRP framework for the consideration of distributed generation.

- b. KIUC's SOP states that the drivers that exist for investor owned utilities may not apply to KIUC as a cooperative. Please identify the drivers and state how each driver affects the manner in which KIUC presently addresses distributed generation and IRP issues.

Response:

KIUC believes that economic dispatch and rate of return are two IRP drivers that generally apply to an investor owned utility that may not apply to an electric cooperative owned by its members.

Sponsor: Joe McCawley

**KAUAI ISLAND UTILITIES COOPERATIVE'S RESPONSES TO THE
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COK-SOP-IR-13 Reference: Issue 13

On page 36 of the HEI Companies' SOP, the companies suggest changes in rules and practices that are necessary to facilitate the successful deployment of distributed generation.

Does KIUC agree with the HEI Companies' suggested changes?
If no, please state KIUC's reasons for its conclusion.

Response: KIUC does not take a position at this time as to whether it agrees with the suggested changes in the context of a cooperative. As a member-owned electric cooperative, the deployment of distributed generation will be primarily determined by an examination of its impact on overall costs to cooperative members.

Sponsor: Joe McCawley
N. Richard Friedman

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

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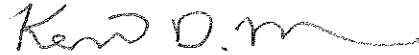
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DATED: Honolulu, Hawai'i, June 16, 2004.

A handwritten signature in dark ink, appearing to read "Kent D. Morihara", written over a horizontal line.

ALAN M. OSHIMA
KENT D. MORIHARA

Attorneys for KAUAI ISLAND UTILITY
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